



Overview of Federal Revenues

Wisconsin Department of Transportation

Description of the Revenue Source

Each year, Wisconsin DOT receives federal funds for use on the state's transportation network. The State Legislature directs federal funds to specific state and local appropriations through the biennial budget process. Federal funds make a significant contribution to the improvement and preservation of the state's multi-modal transportation network.

Brief History of the Revenue Source

Highways

The federal government has long supported the funding of state highway networks. Prior to 1956, there was revenue sharing with the states for transportation. In 1956, the development and funding of the nation's interstate network officially began with passage of the Interstate Highway bill, bringing with it an administrative structure that supports state highway programs across the nation. Over 50-plus years, the Federal Aid Highway Program (FAHP) has expanded from federal support of the national interstate highway network, at 100 to 90 percent federal funds, to the broader support of all state highways, bridges and roads. Today, federal highway funding is fairly broad in its application to eligible projects, including everything from interstate highways to bicycle-pedestrian paths, including the ability to "flex" a certain percentage of funds from highway purposes to transit purposes.

From the 1950s to the early 1990s, the FAHP's focus was completion of the national interstate highway network. Since the 1990s, the focus of the program has become more diffuse and has included, until recently, more congressional earmarking of highway funds. The "donor-donee" issue has been central to legislative discussion, with each state assessing whether it gets back in the annual formula-based distribution of funds from the Highway Trust Fund (HTF) at least the same percentage of funds it contributes to the Highway Trust Fund (HTF).

Transit

The Surface Transportation Act of 1982, signed by President Reagan, included federal funds for transit for the first time. This legislation increased the federal gasoline excise tax from four cents to nine cents per gallon in order to fund highway, transit and safety projects. Inclusion of the transit program in the 1982 legislation was credited with garnering adequate legislative support to pass the tax increase. The legislation created the Mass Transit Account (MTA) of the Highway Trust Fund. Transit funding has traditionally comprised approximately 20 percent of the funds in the trust fund, or 2.86 cents per gallon. This 20 percent accounts for 80 percent of all transit funding; the remaining 20 percent comes from federal General Funds.

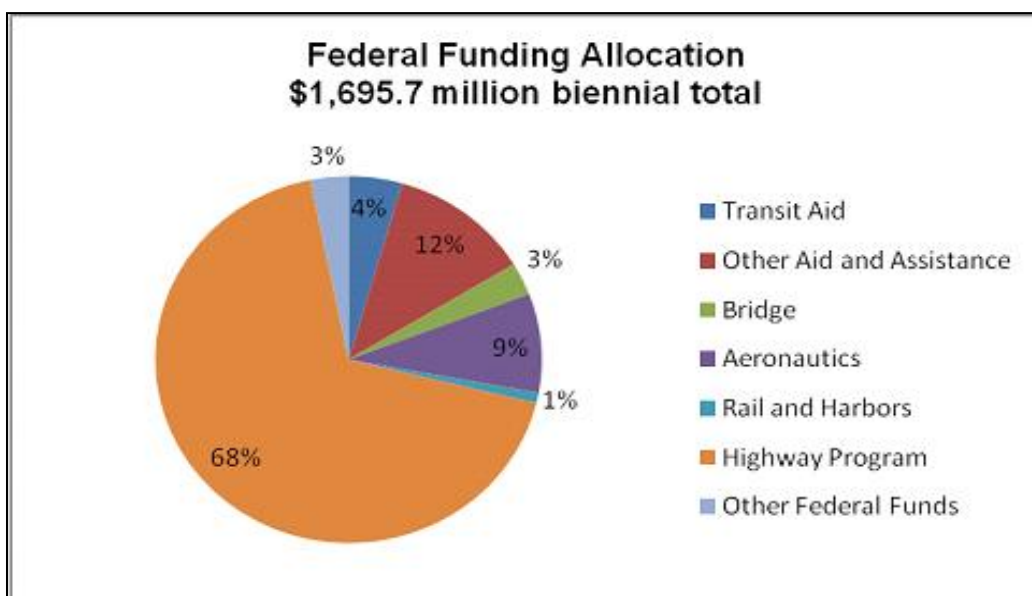
Federal transit funding is distributed through formula-based programs for transit systems of different sizes and for transportation of the elderly and people with disabilities. In addition, each state receives capital funds for their fixed guideway, light rail and bus systems; this funding has come in the form of congressional earmarks and/or competitive discretionary grants.

Aviation

The Airport and Airway Revenue Act, signed into law in 1970, created the Airport and Airway Trust Fund (AATA). Federal aviation programs provide funds for Wisconsin's eligible airport improvement projects. Federal aviation programs are multi-year authorization bills. The current authorization, Vision 100 – A Century of Aviation Reauthorization Act, expired September 30, 2007, and has been extended 22 times. The most current extension of Vision 100 expires on January 31, 2012.

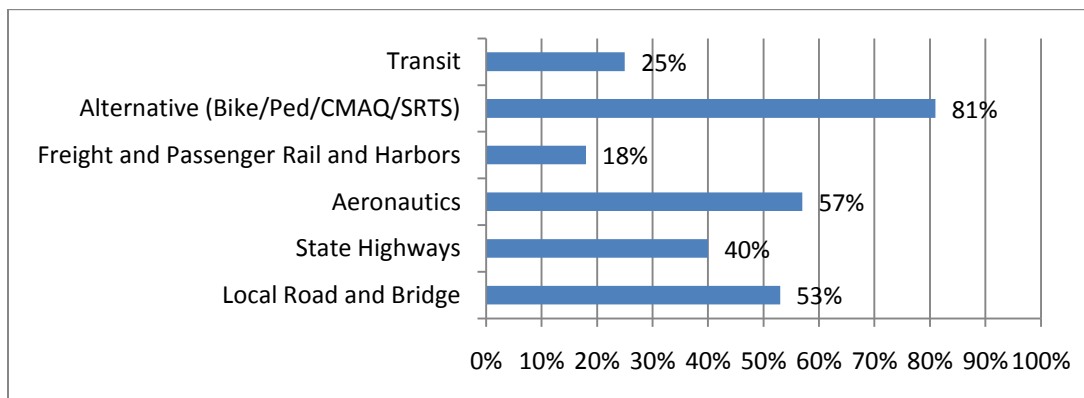
Summary

Federal revenues are expected to contribute over 25 percent of the state's Chapter 20 funding for transportation over the current biennium. The chart below outlines how the funds are allocated among program areas:



The following chart shows the level of federal funding for each transportation mode based on the most recent biennial budget.

Federal Funding for Each Transportation Mode State Biennial Budget Act 32



Key Elements of the Revenue Source

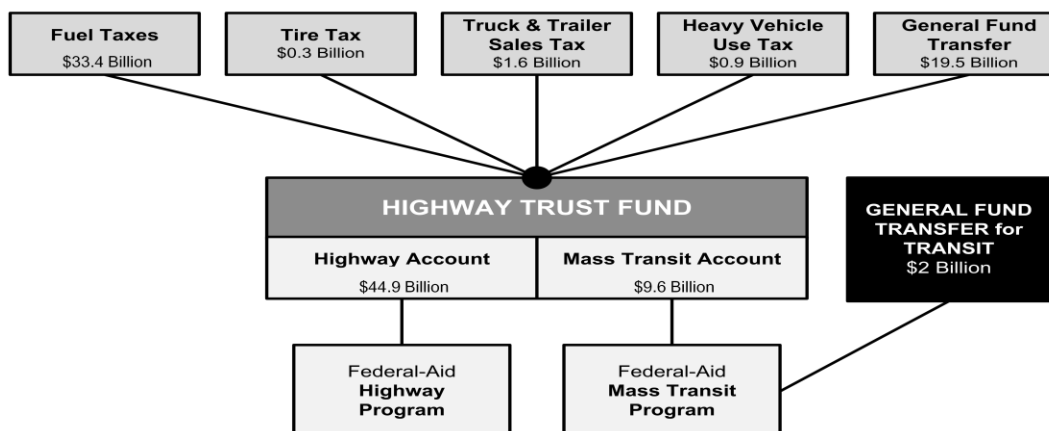
The Highway Trust Fund (HTF)

Federal revenues for transportation are deposited into the Highway Trust Fund (HTF) and used solely for transportation purposes. The HTF has specific budget protections and, until recently, its revenues have supported funding levels outlined in transportation authorization bills. Similar to the state Transportation Fund, motor fuel taxes are the largest revenue source for the federal HTF – more than half of the funds deposited to the HTF in 2010.

Because the HTF relies heavily on fuel taxes and the last authorization bill made overly optimistic assumptions about the level of outlays that could be supported by the HTF revenues, Congress transferred a total of \$34.5 billion from the federal General Fund to the HTF in federal fiscal years (FFYs) 2008, 2009 and 2010. In FFY 2010, the federal General Fund revenues accounted for \$19.5 billion – over 30 percent of total HTF receipts.

Based on current projections, the HTF will face a revenue-outlay imbalance in late FFY 2012, at which time Congress will need to make another transfer from the federal General Fund to the HTF, find new revenues to support current HTF outlays, or allow drastic cuts in HTF funding levels.

The Highway Trust Fund (FFY 2010)

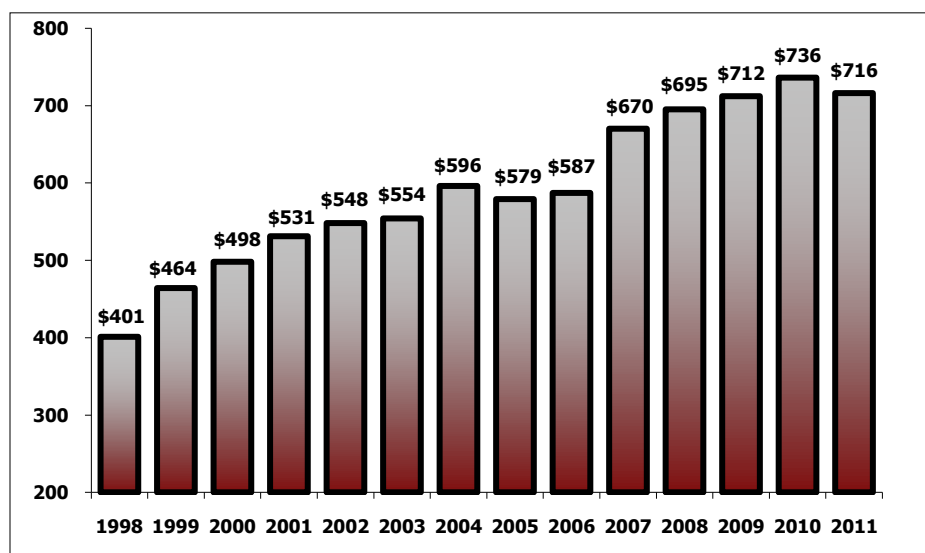


Wisconsin Department of Transportation, Office of Policy, Budget and Finance

Highways

Federal highway programs are funded by revenues deposited into the Highway Account of the HTF. Approximately 85 percent of highway funds are directed to states through federal formulas. Wisconsin receives funds under the criteria of 13 formula categories. While most formula highway programs are 80 percent federal and 20 percent state-funded, different programs have different eligibilities and federal match provisions. For example, Interstate Maintenance funds can be used for a variety of purposes associated with reconstruction or rehabilitation of the state's Interstate system. These projects can be up to 90 percent federally funded. Highway Safety and Improvement Program funds can be applied to projects with safety eligibility and can be 100 percent federally funded. The graph below outlines the state's federal formula funding levels for highway purposes over the past two authorizations – the Transportation Equity Act for the 21st Century (TEA-21) and the Safe, Accountable, Flexible, Transportation Equity Act – A Legacy for Users (SAFETEA-LU).

Wisconsin's Federal Formula Funding for Highways, 1998-2011 (millions)



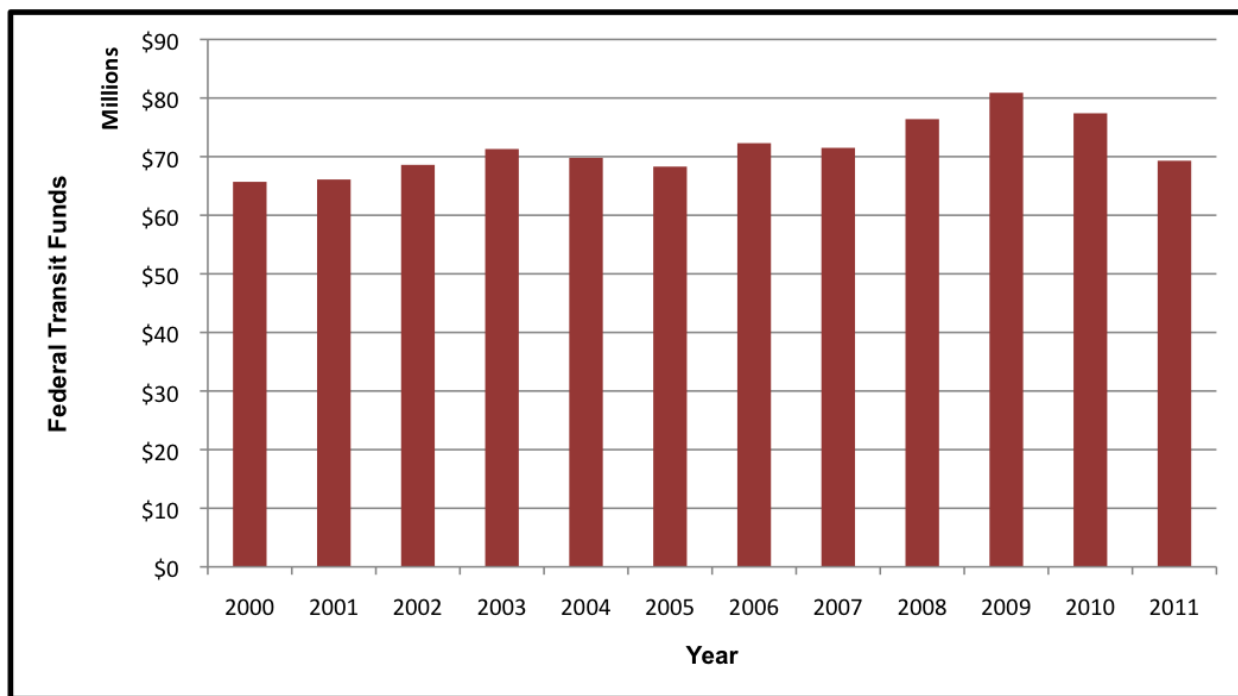
Transit

As with highway funding, Congress appropriates funds annually to be distributed to states for transit purposes. Federal funding for transit comes from two sources: 1) federal General Fund revenues and 2) revenues credited to the HTF-Mass Transit Account, generated from motor fuel taxes.

Wisconsin's large urban systems – currently, Milwaukee and Madison – receive their transit formula funds directly. Wisconsin DOT receives urban, rural and elderly and disabled formula funds for medium and smaller systems and allocates those funds to the local systems through the transit tier requirements included in state statutes. In addition, Wisconsin communities receive bus capital funds for improving or maintaining their bus systems, either through congressional earmarking or discretionary grant competition.

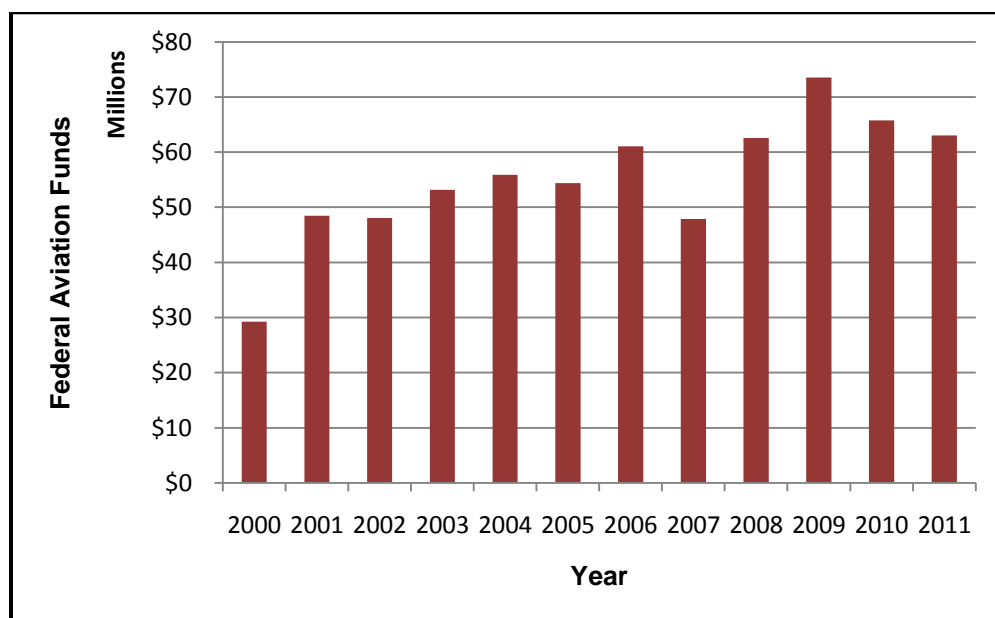
The following graph outlines the state's federal formula and capital funding levels for transit purposes over the past two authorizations – the Transportation Equity Act for the 21st Century (TEA-21) and the Safe, Accountable, Flexible, Transportation Equity Act – A Legacy for Users (SAFETEA-LU):

Wisconsin's Federal Formula Funding for Transit (millions)



Aviation

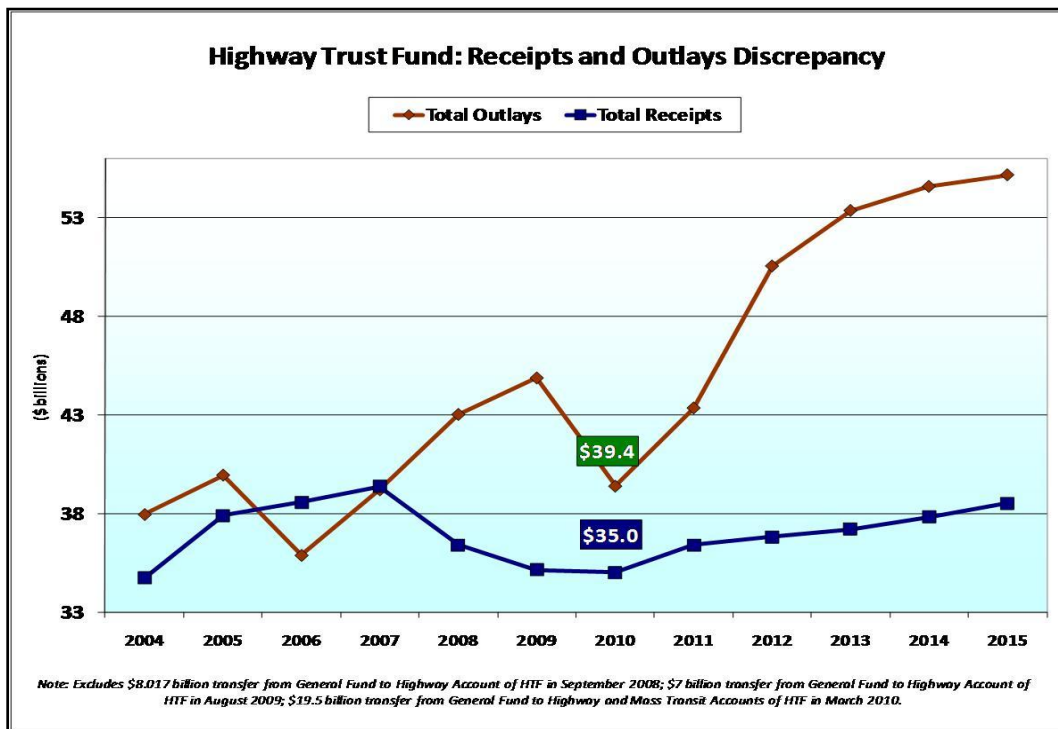
The Airport and Airway Trust Fund receives revenues from several sources, including: excise taxes on domestic passenger tickets and flight segments; international passenger arrivals and departures; air cargo waybills; aviation jet fuel taxes; and taxes on frequent flier mileage awards. Trust Fund revenues comprise about 70 percent of aviation spending; the federal General Fund supports approximately 30 percent. In 2011, a total of \$97 million was allocated to support Wisconsin's airports. This included federal revenues of \$63 million (64.9 percent), state revenues of \$19 million (19.6 percent), and local contributions of \$15 million (15.5 percent) from local governments/airport owners.



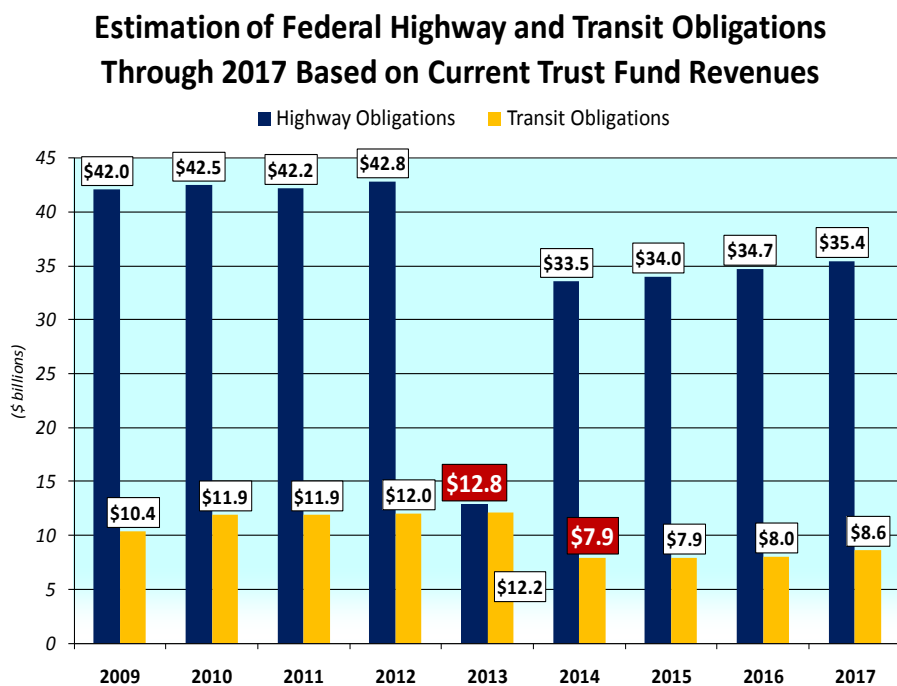
Anticipated Challenges

States face significant challenges associated with the federal-state partnership.

Imbalance of HTF Revenues to Outlays: Since FFY 2008, there has been an imbalance between HTF revenues and the outlays associated with the funding levels set in SAFETEA-LU. Congress has made three transfers from the federal General Fund to the HTF to assure that, in any given fiscal year, the revenues in the HTF do not fall below the \$4 to \$5 billion range. It is estimated that current and expected HTF revenues can support current federal funding levels until sometime in FFY 2012. The chart below identifies the revenue-outlay relationship since 2004 and projected to 2015.



The following chart shows the federal funding level that can be supported by HTF revenues in FFY 2013 based on current projections,¹ resulting in a 70 percent cut in highway funding between FFY 2012 and FFY 2013. The Mass Transit Account funding cut will follow a year later with a 35 percent loss.



¹ The Congressional Budget Office updates its HTF projections in January and July.

The federal funding cuts shown in the above graph translates into a reduction of Wisconsin's federal highway funding from \$715 million in FFY 2012 to \$214 million in FFY 2013. Wisconsin's federal transit funding would fall from \$71 million in FFY 2013 to \$45 million in FFY 2014.

Surface Transportation Reauthorization: Since SAFETEA-LU expired on October 1, 2009, Congress has extended the authorization eight times. Congress has been unable to identify a revenue source to address the current funding gap between revenues and outlays in the HTF. There appears to be congressional intent to address the issue, but there is no positive indication, thus far, that members of the House and Senate can reach agreement on a revenue solution.

There also appears to be some support in Congress for devolving the responsibility for transportation funding from the federal government to the states. Some believe that federal requirements for the use of federal funds on transportation projects result in significantly higher project costs. Others believe the federal transportation program has no core, agreed upon national focus and has outlived its stated purpose.

The next authorization bill may include performance measures that will affect how states can spend their federal funds for highway and transit programs. This may include a requirement for additional strategic performance plans (asset management and freight) as well as requirements for additional data, which could redirect resources away from transportation project spending.

Aviation Reauthorization: The aviation authorization bill expired in 2007 and has been extended 22 times. During the summer of 2011, Congress did not extend the authorization or the revenue title, which resulted in stalled aviation projects and no collection of federal aviation excise taxes for approximately three weeks. Like the surface transportation authorization bill, Congress has thus far been unable to reach consensus on this legislation.

Federal Deficit: The federal government faces a looming federal deficit. The Administration and Congress continue to struggle with what combination of program cuts and/or tax reform/increases can be enacted. While the majority of transportation programs receive funding through federal budget contract authority,² all federally funded programs, nonetheless, will be considered for potential cuts as the Congress tries to work toward a deficit solution.

² Contract Authority (CA) is a form of federal budget authority that permits obligations to be made in advance of appropriations. Most programs under the *Federal-aid Highway Program* operate under Contract Authority.